FROM MEMBERSHIPS TO MERCHANDISE: UNDERSTANDING THE IMPORTANCE OF EARNED INCOME FOR ART AND CULTURAL INSTITUTIONS

BY TIA JAMES

THESIS

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By

Tia James, B.S.

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Approved by

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Catherine Bartch, M.A.
Advisor
Graduate Program in
Arts Administration

ABSTRACT

This paper examines the importance of earned income activity for the arts and cultural sector through quantitative and qualitative research methods. Earned income not only contributes to an organization's financial stability but it offers value and benefits for both the organization and their constituency. In analyzing what earned income means for art and cultural institutions, challenges, strategies, and recommendations emerge that can be useful for art administrators decision making in this area.

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INTRODUCTION

Wavering financial support of art and cultural institutions across all spectrums of donors: government, individuals, and corporations, underscore the need to examine revenue-producing activities for non-profits. As many organizations face tighter budgets and budget constraints there may be a need to consider how organizations leverage opportunities to increase, diversify, or improve revenue streams. While engaging in income producing activities by some may be considered entrepreneurial, it has been at times frowned upon as commercial activity that can corrupt the mission of an organization. This paper seeks to substantiate the tangible and intangible value of earned income activity in an effort to foster and encourage the entrepreneurial spirit of art and cultural organizations, while producing revenue streams for sustainability.

Focused research on earned income activity in Arts & Culture is rare. When the topic is covered it is most often examined with respect to all the funds organizations receive including government grants and donations. There are several excellent bodies of work on the total financial picture of art and cultural organizations, yet few examine the commercial activities that generate revenue beyond admission fees and ticket sales. Some of these bodies of work include studies done by the RAND Corporation, Alliance for the Arts, Americans for the Arts, and the Center for Arts and Cultural Policy Studies.[1] This paper examines the impact that earned income activities which involve the sales of goods or services have on art and cultural organizations from a qualitative and quantitative perspective. Earned income activities examined include membership sales, gift shops, restaurants, concessions, special programming, parking, rental income, and admissions fees.

Thirty art and cultural institutions in the city of Philadelphia are presented in the thesis. The organizations range from very large, with budgets exceeding ten million, to smaller organizations with budgets fewer than one hundred thousand dollars. Philadelphia is the fifth largest city in the United States serving as a home to hundreds of art and cultural organizations. It can serve as a microcosm of the art and cultural landscape for other major cities in the country.

Through the analysis of quantitative data for specific earned income activities combined with qualitative data from arts administrators, some tentative conclusions and recommendations are presented that will hopefully be beneficial for arts administrators and their decisions making in the area of earned income.

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[1] Americans for the Arts; Lainer et. al; McCarthy, 14; Princeton University Center for Arts and Cultural Policy Studies.

Literature and Background

Literature on earned income in the nonprofit sector is rather limited and even more limited in the art and cultural fields. "There has traditionally been little interest in exploring the consequences of the "nonprofitness" of arts and culture."[2] Even though earned income activity has become more common over the past twenty years there is still little discussion of the topic.[3] When arts economists have discussed earned income it has been about the pricing of admission fees for museums or the government's role in subsidizing the arts.[4][5]

There are two schools of thought when it comes to the subject of nonprofits earning income. One perspective is that it is good for organizations to earn income, develop revenue strategies and business ventures, and the pursuit of such activities can positively impact nonprofit organizations. The other perspective generally classifies earned income ventures as commercial activity, deemed not as beneficial as perceived, and pursuit of such activities can actually subvert an organization from its mission and organizational goals.

Despite the two perspectives, the consensus amongst scholars is that there are still many unanswered questions about what earned income means to nonprofit organizations, their sustainability, and whether or not an organization's focus on earning income and increasing revenue produces benefits and success.

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[2] Stefan Toepler, "Culture, Commerce, and Civil Society: Rethinking Support for the Arts," *Administration & Society* 33, no. 5 (Nov, 2001a), 508.

[3] Stefan Toepler and Volker Kirchberg, "Museums, Merchandising, and Nonprofit Commercialization" (n.d.), http://www.nationalcne.org/index.cfm?fuseaction=feature.display&feature_id=144.

[4] Ibid; Toepler, "Culture, Commerce, and Civil Society: Rethinking Support for the Arts," *Administration & Society*), 508.

One central theme noted by many contributors to the subject is the changing landscape of the nonprofit sector, from decreased and unpredictable funding to increased competition for those funds. There is agreement that these factors created the environment for nonprofits to become more entrepreneurial overtime thereby looking for ways to increase and diversify revenue streams. Earned income is not going away for nonprofits; it is here to stay, and is very much a part of art and cultural organizations operating budgets.

Earned Income Defined

Scholars in their explanations of what earned income is and what it entails have highlighted several key terms. The most common terms used besides earned income are revenue and revenue generation; commercial and commercial activities; entrepreneur and entrepreneurial; and social entrepreneurs and social entrepreneurship. Other terms such as social enterprise, nonprofit business venture, and nonprofit enterprise have all been used to describe the practice of earning income.[6]

Earned income generally "relates to the sale of products or services to generate unrestricted funds for an organization."[7] It involves an exchange of products or services for income from merchandise sales, tuition, rent, book sales,

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[6] Sharon M. Oster, Cynthia W. Massarsky, and Samantha L. Beinhacker, eds., *Generating and Sustaining Nonprofit Earned Income; a Guide to Successful Enterprise Strategies.*, 2004), 352.
[7] Richard Steckel et al., *Filthy Rich: How to Turn Your Nonprofit Fantasies into Cold, Hard Cash*, 2nd ed.: Ten Speed Press, 2000), 240.

fees and more.[8] Earning income is essentially a for-profit paradigm that is mostly centered on the sale of products and services.[9]

Some scholars use the term commercial or a variation of the word in which they offer definitions similar to scholars who define earned income. Commercial activities include selling products or charging fees for programs or services, which may include admission fees, rental space income, gift stores, and snack bars.[10] Commercialization means organizations are willing to charge fees for their service, products, or programs.[11] Throughout the literature earned income, revenue, and commercial activity have been used interchangeably; however, this thesis will use the term earned income.

The term entrepreneur refers to one who organizes, manages, and assumes the risks of a business or enterprise.[12] The adjective form of the word is entrepreneurial. An organization acts in an entrepreneurial manner when they develop business or enterprise opportunities that may or may not relate to their mission.[13] Jerr Boschee and Jim McClurg go as far as to say that "unless an

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[8] Jerr Boschee, "Merging Mission and Money: A Board Member's Guide to Social Entrepreneurship" (, 1998), 1.
[9] Naomi R. Kooker, "As Donors Dollars Fade, Nonprofits Eye Earned Income." *Boston Business Journal*, June 17, 2005.
[10] Karen A. Froelich, "Diversification of Revenue Strategies: Evolving Resource Dependence in Nonprofit Organizations," *Nonprofit and Voluntary Sector Quarterly* 28, no. 3 (September 1, 1999), 246.
[11] Toepler and Kirchberg, *Museums, Merchandising, and Nonprofit Commercialization*
[12] Miriam-Webster, *Miriam-Webster Online Search*: Miriam-Webster, http://www.merriam-webster.com/.
[13] Toepler and Kirchberg, *Museums, Merchandising, and Nonprofit Commercialization*

organization is generating earned revenue from its activities it is not acting in an entrepreneurial manner."[14]

Quite interestingly, a survey, conducted in 2002 by Cynthia W. Massarsky and Samantha L. Beinhacker, asked several nonprofits to define what entrepreneurial meant to them. Some of the responses included:

> *Increasing earned revenue and profits; Responding market demand and opportunities; Agile; Challenging the status quo, familiar paradigms, and established beliefs; Developing and testing new products and services; Moving quickly to new challenges; Designing programs that reach beyond traditional constituents and supporters; Operating in a fast, flexible manner; Inventing new ways to do business; Nontraditional; Risk-taking; Looking for resources and opportunities; Creating, collaborating; and synthesizing; Seeking nontraditional funding; Forming strategic partnerships; Redefining business in response to actual and anticipated developments.*[15]

Social entrepreneur was a term coined in the 1980's by William Drayton, founder and CEO of Ashoka, a nonprofit organization devoted to supporting and facilitating social change through innovation, creativity and business.[16] Drayton's definition refers to individuals with the desire to find innovative solutions to social problems, not leaving the problems for the government and business sectors to solve.[17] Since then others have adopted the term and defined it as a nonprofit business practice. Social entrepreneurs have been described as pioneers who are changing the face of the nonprofit sector by shedding old definitions of what it

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[14] Jerr Boschee and Jim McClurg, "Toward a Better Understanding of Social Entrepreneurship: Some Important Distinctions" (, 2003), 1, http://www.se-alliance.org/better_understanding.pdf.(2003), 1.
[15] Cynthia W. Massarsky and Samantha L. Beinhacker, *Enterprising Non-Profits: Revenue Generation in the Nonprofit Sector* (: Yale School of Management, 2002), 1 (accessed June 3, 2009).
[16] Paul C. Light, "Social Entrepreneurship Revisited*: Not just Anyone, Anywhere, in any Organization can make Breakthrough Change*
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**," , 2009, http://www.ssireview.org/articles/entry/social_entrepreneurship_revisited (accessed June 6, 2009)
[17] Ibid.

means to survive in the nonprofit economy.[18] They are looking beyond just being innovative to being more entrepreneurial by creating strategies that enable them to reduce dependence on government support and contributions.[19] They are nonprofit executives and administrators who pay attention to the market "without losing sight of their underlying missions, to somehow balance moral imperatives and profit motives."[20] Social entrepreneurs work in nonprofits but initiate earned income strategies to develop new revenue sources;[21] however, they also find new and exciting ways to attract contributions and government support for their programs.[22] Most of the literature on social entrepreneurship refers to the nonprofit sector as a whole whether they are in health and human services or arts and culture. Nevertheless the term that connects all nonprofit disciplines together on the discussion of earning income is entrepreneurship.

The Earning Trajectory of Nonprofits Over the Past 60 Years

It is commonly believed that private donors largely funded nonprofits until the 1950's and it wasn't until World War II ended that newly developed government programs began offering grants and subsidies.[23] However, reduced funding in the 1980's followed by privatization of government agencies during

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[18] Boschee, *Merging Mission and Money: A Board Member's Guide to Social Entrepreneurship*, 1-12
[19] Ibid.
[20] Ibid., 2.
[21] Oster, Massarsky, and Beinhacker, *Generating and Sustaining Nonprofit Earned Income; a Guide to Successful Enterprise Strategies.*, 352.
[22] Boschee and McClurg, *Toward a Better Understanding of Social Entrepreneurship: Some Important Distinctions*, 1-5
[23] Toepler and Kirchberg, *Museums, Merchandising, and Nonprofit Commercialization*

the 90's created a challenging environment for nonprofits to raise funds.[24] Federal and state funding for nonprofits was reduced by 23% percent over the two decades.[25] The reduced government spending in the arts during the 80's and significant cuts in National Endowment for the Arts grants in the mid 90's along with the lack of support for general operation and maintenance forced museums to create earned income ventures.[26] Organizations began to "address the problem through earned income strategies."[27]

In 1977 the average nonprofit had more than three months of operating revenue, by 1989 that dwindled to less than four days of revenue reserves.[28] During this time nonprofits throughout the United States attempted to launch business ventures to offset cuts in funding but failed because they created businesses that were not central to their organization's mission.[29] Back then, over twenty years ago, the thought of a nonprofit organization acting entrepreneurial left distaste in the mouths of stakeholders but today there is more acceptance of the idea. Today increased operating costs, flattened and reduced funds from traditional sources, and increased competition for those funds have created a ripe environment for nonprofit art and cultural institutions to consider earned income opportunities.[30]

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[24] Steckel et al., *Filthy Rich: How to Turn Your Nonprofit Fantasies into Cold, Hard Cash*, 240
[25] Boschee, *Merging Mission and Money: A Board Member's Guide to Social Entrepreneurship*, 1-12
[26] Ibid; Hughes and Luksetich, 203.
[27] Toepler and Kirchberg, *Museums, Merchandising, and Nonprofit Commercialization*
[28] Boschee, *Merging Mission and Money: A Board Member's Guide to Social Entrepreneurship*, 1-12
[29] Ibid.
[30] Boschee, 1998; Boschee & McClurg, 2003; Froelich, 1999; Steckel et al., 2000

The number of nonprofits in the U.S. has tripled over the past twenty years[31] but the pool of funds from both public and private sources have not followed the same pattern. Boschee points out that wealthy Americans are giving three percent less than they did in the 80's.[32] Steckel et al. suggests even the available funds from grantors go to organizations that are more popular or whose cause is deemed worthier so some organizations have more difficulty competing for funds. He also cites another seemingly overlooked undercurrent of the shifts in the nonprofit economy, which is the social transformation of nonprofit audiences.[33] Steckel notes that present day patrons are different than the children of the Great Depression who bought memberships and subscriptions; instead they are people with limited time who balance work with recreation and appreciate freedom, flexibility, convenience, and savings.[34] Other contributing factors to this change include reduced income tax for incentives and tighter corporate giving policies.[35]

Karen Froelich discusses a resource dependency theory in which organizations become highly dependent on a few key sources for survival often requiring the nonprofit to fulfill the demands of those key funders.[36] Froelich highlights that "resources are not adequate, stable, or secure creating

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[31] Boschee and McClurg, *Toward a Better Understanding of Social Entrepreneurship: Some Important Distinctions*, 1-5
[32] Boschee, *Merging Mission and Money: A Board Member's Guide to Social Entrepreneurship,* 1-12
[33] Steckel et al., *Filthy Rich: How to Turn Your Nonprofit Fantasies into Cold, Hard Cash*, 240
[34] Ibid., 10.
[35] Froelich, *Diversification of Revenue Strategies: Evolving Resource Dependence in Nonprofit Organizations*, 246-268
[36] Ibid.

environmental conditions of scarcity and uncertainty."[37] As a result, American nonprofits have shifted toward entrepreneurial methods of operation in recent years.[38] This is not surprising especially when presently few organizations are fully funded through philanthropy.[39]

In 2011 Americans for the Arts published a report on the average source of revenue for nonprofit arts organizations conveying that organizations are usually only able to earn half of the money required to sustain their organization while the other half must be raised through grants and donations. They note that even small changes in the contributed revenue can result in deficits for organizations.[40] Understanding that fluctuations in contributed funds can lead to deficits poses a challenge to organizations to seek ways to leverage the earned income side of the pie for which they may have a bit more control. The 21st century arts and cultural nonprofit is confronted with reducing resource dependency and increasing resource diversity. In fact Dr. Glass asserts:

> Building a diversified portfolio of revenue will be the key to sustaining museums in the future. Income from admissions especially from tourists will become less important while revenue from memberships, programs, special events, product development, and licenses, and other businesses will command greater attention. The need to develop a diversified portfolio will come, not from admission revenue, but from these other sources just mentioned.[41]

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[37] Ibid., 247, 248.
[38] Stefan Toepler, *Conceptualizing Nonprofit Commercialism: A Case Study*, http://www.austincc.edu/npo/resources/docs/Conceptualizing%20Nonprofit%20Commercialism.pdf ed., Vol. 9, 2004), http://www.austincc.edu/npo/resources/docs/Conceptualizing%20Nonprofit%20Commercialism.pdf.
[39] Ibid.
[40] Americans for the Arts, *Source of Revenue for Nonprofit Arts Organizations (Estimated)* (www.artsusa.org: Americans for the Arts, 2011).
[41] Ph D. Glass Brent, "The Future of Museums: Challenges and Opportunities." (Philadelphia, PA, Academy of Natural Sciences of Drexel University, April, 12, 2012).

Diversifying revenue streams it seems would prompt an organization to be more entrepreneurial in their endeavors.

Earning Income Today and What it Entails

A survey of 519 nonprofits organizations conducted by Massarsky and Beinhacker for the Pew Charitable Trusts revealed that Arts and Culture organizations are more likely to operate earned income ventures than any other type of non-profit. Sixty percent of the arts and cultural organizations surveyed were operating earned income ventures while more than half of all the nonprofits surveyed were already engaging in earned income activities or expressed an interest doing so.[42]

The goal of generating earned income is multifaceted—to become less dependent on government funds and private philanthropy, become more self-sufficient, generate unrestricted revenue, sustain existing programs, freedom, survival, profitability, growth, and to appear more disciplined and business savvy to stakeholders.[43] Museums tend to view earning income as a necessity.[44]

Organizations can generate earned income by expanding current programs, creating new programs, or entirely new business ventures.[45] They can also earn income by increasing admissions fees and ticket prices, but this is a double-edged sword because the organization risks cutting off certain constituents

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42 Massarsky and Beinhacker, *Enterprising Non-Profits: Revenue Generation in the Nonprofit Sector*, 1-17
43 Boschee 1998; Massarky & Beinhacker, 2002; Toepler, 2004; Foster & Bradach, 2005
44 Toepler and Kirchberg, *Museums, Merchandising, and Nonprofit Commercialization*
45 Boschee, *Merging Mission and Money: A Board Member's Guide to Social Entrepreneurship*, 1-12

when prices are raised.[46] The unrestricted nature of earned income can be an attractive incentive to arts and cultural organizations. Steckel et al. offers that when organizations employ earned income strategies successfully they can earn predictable, unrestricted operating revenue and offer the mission to a broader audience as a result.[47]

Results of Implementing Earned Income Strategies and Pitfalls

Several scholars have reported what can be considered successes in the implementation of earned income venture as well as pitfalls. Jerr Boschee claims that through entrepreneurship, nonprofits have been able to expand their most crucial and effective programs.[48] Froelich's research finds that revenue from earned income activities provided organizations with more flexibility and autonomy.[49] Massarky and Beinhacker's study revealed a "halo effect" of earned income activity where they observed a positive impact on organizations' reputations, missions, program delivery, entrepreneurial culture, self-sufficiency, and ability to attract and retain employees and donors.[50] Another study conducted in the human services sector noted the same impacts as a result of earned income ventures but also highlighted that an improved reputation is valuable because it is a reinvestment in the organization enterprising cycle leading to predictable

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[46] Burton A. Weisbrod, ed. *To Profit Or Not to Profit: The Commercial Transformation of the Nonprofit Sector*, Illustrated ed.: Cambridge University Press, 2000), 356.
[47] Steckel et al., *Filthy Rich: How to Turn Your Nonprofit Fantasies into Cold, Hard Cash*, 240
[48] Boschee, *Merging Mission and Money: A Board Member's Guide to Social Entrepreneurship*, 1-12
[49] Froelich, *Diversification of Revenue Strategies: Evolving Resource Dependence in Nonprofit Organizations*, 246-268
[50] Massarsky and Beinhacker, *Enterprising Non-Profits: Revenue Generation in the Nonprofit Sector*, 1-17

business and future business.[51] A solid reputation is akin to one of the best forms of marketing which is word-of-mouth. Toepler and Kirchberg indicate that earned income activities may have some positive impact on museums such as attracting visitors and increasing visibility but suggest the evidence is weak.[52] Finally, when organizations adopt an entrepreneurial culture they can respond quickly to opportunities that arise,[53] rather than spend time trying to penetrate bureaucratic layers. Unfortunately there have been many missed opportunities for nonprofits to generate funds and support their mission in new ways because of the lack of consideration for earned income opportunities available to them.[54] However, two important variables for success in earned income ventures are Board of Directors support and commitment,[55] and ventures tied to the organization's mission.[56]

Meanwhile the general tone of experts in the field is one of "caution" but not hindrance when it comes to organizations pursuing earned income opportunities.[57] There are definite reasons for organizations to be cautious. Scarce resources including time, people, and money are issues of concern for many organizations,[58] and these are traditionally issues of concern for nonprofits

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[51] Alana Conner Snibbe, "What Profits do for Nonprofits," *Stanford Social Innovation Review* 4, no. 2 (Summer, 2006), 19.
[52] Toepler and Kirchberg, *Museums, Merchandising, and Nonprofit Commercialization*
[53] Robin Simons, *Nonprofit Piggy Goes to Market* (Denver Colorado: Children's Museum of Denver, Inc, 1984), 31.
[54] Oster, Massarsky, and Beinhacker, *Generating and Sustaining Nonprofit Earned Income; a Guide to Successful Enterprise Strategies.*, 352
[55] Boschee, 1998; Massarsky & Beinhacker, 2002; Simons, 1984
[56] Boschee, 1998; Boschee & McClurg, 2003; Massarsky & Beinhacker 2002; Simons, 1984
[57] Kooker, *As Donors Dollars Fade, Nonprofits Eye Earned Income.*
[58] Boschee, *Merging Mission and Money: A Board Member's Guide to Social Entrepreneurship*, 1-12

without added entrepreneurial activity. Organizations are not always realistic about what is required to establish an earned income enterprise from staff skills to cash flow.[59]

They should ask some central questions before entering earned income ventures.[60] Sometimes organizations are thrown off course by the demands of running and managing a business so programs aren't necessarily improved.[61] Some failed entrepreneurial efforts were led by people with the wrong skill set.[62] Extreme optimism, overlooked challenges, exaggerated expectations of financial gain can divert administrators from their organization's core values and mission.[63] A study of museums indicated that business ventures might not always yield expected results in the long run.[64]

Besides those factors a common barrier is fear, fear of failure,[65] fear of appearing too solvent to funders as if they are no longer needed[66] and fear of the Internal Revenue Service (IRS). There are grantors who give money to organizations who appear to be solvent because they do not want to invest in an organization that does not handle resources well or is in jeopardy of dissolution, while other funders look at financial need. So the fear of appearing too solvent

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[59] Kooker, *As Donors Dollars Fade, Nonprofits Eye Earned Income.*
[60] Boschee, *Merging Mission and Money: A Board Member's Guide to Social Entrepreneurship*, 1-12
[61] Snibbe, *What Profits do for Nonprofits*, 19
[62] Boschee and McClurg, *Toward a Better Understanding of Social Entrepreneurship: Some Important Distinctions*, 1-5
[63] William Foster and Jeffrey Bradach, "Should Nonprofits Seek Profits?" abstract, *Harvard Business Review* 83, no. 2 (Feb, 2005): 92.
[64] Toepler, *Conceptualizing Nonprofit Commercialism: A Case Study*
[65] Boschee, *Merging Mission and Money: A Board Member's Guide to Social Entrepreneurship*, 1-12
[66] Simons 1984; Snibbe, 2006

may be unfounded depending on the funder and their granting criteria. Fear of the IRS may be unwarranted as well. As long as the venture relates to the organization's mission the income is tax exempt.[67] Taxable income has to meet three criteria: the venture has to be unrelated to the organization's mission, be carried on regularly, and be deemed a trade or business. Very few organizations meet all three criteria with their ventures.[68]

Nonprofit/For Profit: Is there a Difference?

For-profit entities are measured solely by financial results and their ability to generate profits while nonprofits intertwine financial and mission returns; they reinvest in their missions and not shareholders.[69] With for-profits profit maximization is always the goal as nonprofits strive to obtain positive outcomes from activities that support their mission.[70] Even still both types of organizations share common needs such as increasing traffic, visibility, sales, projecting a positive image to the public, and justifying their existence.[71] Just like for-profits, nonprofits need to account for cash flow and know their customers or constituents well.[72] Still Burton Weisbord claims that as nonprofits grow in size and expand earned income activities they become less discernable from for-profits organizations.[73] Once they start to engage in these activities they are on the cusp

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67 Steckel et al., *Filthy Rich: How to Turn Your Nonprofit Fantasies into Cold, Hard Cash*, 240
68 Ibid.
69 Boschee and McClurg, *Toward a Better Understanding of Social Entrepreneurship: Some Important Distinctions*, 1-5
70 Toepler, *Conceptualizing Nonprofit Commercialism: A Case Study*
71 Simons, *Nonprofit Piggy Goes to Market*, 31
72 Kooker, *As Donors Dollars Fade, Nonprofits Eye Earned Income.*
73 Weisbrod, *To Profit Or Not to Profit: The Commercial Transformation of the Nonprofit Sector*, 356

of looking like the private sector.[74] Steckel et al. does not see anything wrong with this and states the private sector serves as a great role model for nonprofits and nonprofits can operate like for-profits by changing their attitudes and behaviors.[75]

Summary of Scholars' Perspectives

A duality exists within many scholars' perspectives on the subject of earned income. One is that earning income is good yet many organizations are ill prepared to implement entrepreneurial strategies.[76] Foster and Bradach argue that there is a role for earned income ventures in the nonprofit sector but unrealistic expectations of managers leave constituent needs unmet.[77] Meanwhile some scholars have taken some strong stances on the subject. Boschee and McClurg claim that only earned income will allow an organization to become sustainable or self-sufficient, and running a business successfully means sustaining it with earned income; not subsidies.[78] On the other hand Foster and Bradach claim that there is plenty of buzz about the value of earned income ventures but they only account for a small portion of the operating budget and few of the activities generate money.[79]

This disparity and dichotomy of perspectives means there is a need for more research. "The uniqueness and turnover in the nonprofit sector make it

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[74] Ibid.
[75] Steckel et al., *Filthy Rich: How to Turn Your Nonprofit Fantasies into Cold, Hard Cash*, 240
[76] Boschee, *Merging Mission and Money: A Board Member's Guide to Social Entrepreneurship*, 1-12
[77] Foster and Bradach, *Should Nonprofits Seek Profits?*, 92
[78] Boschee and McClurg, *Toward a Better Understanding of Social Entrepreneurship: Some Important Distinctions*, 1-5
[79] Foster and Bradach, *Should Nonprofits Seek Profits?*, 92

impossible to generalize how changes in funding will affect each individual organization."[80] Massarsky and Beinhacker highlighted in their study on revenue generation in the nonprofit sector that the field lacks "well defined criteria, standards, and strategies for achieving success in this area" and there is little data that documents or discusses earned income ventures. [81]

Conclusion

There are many unanswered questions and many scholars in the field agree with this sentiment. The central question is whether or not it is possible to balance mission with money.[82] Little is known about earned income strategies and their ultimate impact on nonprofits' organizational structures, philosophies, behavior and performance, and whether or not the advantages are worth the disadvantages.[83] Moreover, policy issues and concerns for the nonprofit sector as a whole do not keep the arts in mind.[84] This thesis aims to address some of those unknowns by exploring the importance of earned income to arts organizations. While this thesis alone will not produce all the answers it hopes to contribute to the body of research and scholarly work that can offer greater insight for arts and cultural nonprofit administrators.

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[80] Hughes and Luksetich, *Nonprofit Arts Organizations: Do Funding Sources Influence Spending Patterns?*, 203-220
[81] Massarsky and Beinhacker, *Enterprising Non-Profits: Revenue Generation in the Nonprofit Sector*, 1-17
[82] Boschee, 1998; Weisbord, 1998; Hughes & Luksetich, 2004
[83] Froelich, *Diversification of Revenue Strategies: Evolving Resource Dependence in Nonprofit Organizations*, 246-268
[84] Toepler, *Culture, Commerce, and Civil Society: Rethinking Support for the Arts*, 508

CHAPTER ONE – PHILADELPHIA AS A MICROCOSM: ANALYZING THE EARNED INCOME ACTIVITIES OF THIRTY ART AND CULTURAL INSTITUTIONS IN PHILADELPHIA

Methodology

Thirty art and cultural institutions in Philadelphia with public financial records available through GuideStar USA, Inc. were examined.[85] The records consisted of the federal tax Form 990. For all the art and cultural institutions studied three years of financial information was available. The records available included reporting years 2010, 2009, and 2008 for twenty-two organizations and reporting years 2011, 2010, and 2009 for eight of the organizations. The

85 Inc GuideStar USA, "GuideStar," GuideStar USA, Inc., http://www.guidestar.org/ (accessed April, 2012).

availability of the financial documents for different years has to do with each organization's accounting cycle. As a result, there is have a complete data set for years 2009 and 2010 for all organizations, and are able to assess a three year performance average for each organization as well.[86]

Form 990 is an annual reporting document that federally tax-exempt 501(c)(3), art and cultural, organizations must file with the Internal Revenue Service (IRS). The form provides information on the filing organization's finances. Since the 501(c)(3) status establishes these organizations as those that provide a public good they must make their financial records available for public inspection. These records are available for most art and cultural organizations through GuideStar.[87]

There are some limitations with the reporting form 990. The IRS introduced a new form 990 for the 2009 reporting year. This means the revenue reported for 2008 appears differently on the 990 than it does for the years 2009, 2010, and 2011. While the information that is captured is the same for all the years it is presented differently in 2008. The information that this thesis examines is included on Part VII of the form in a section titled "Analysis of Income-Producing Activities" for 2008 while for 2009, 2010, and 2011 this information is now provided on Part VIII in the "Statement of Revenue."

According to GuideStar:

> Although Forms 990 can provide a snapshot of the financial health and expenditures of an organization at a specific time, they are virtually

86 See Table 1

87 GuideStar is a free web-based service providing grant makers, donors, volunteers, and the general public access to accurate and transparent financial information for non-profit organizations

useless in comparing one organization to another unless the organizations are of similar size, age, geography, and field of activity. Further, they tell us nothing about the ultimate or relative effectiveness of an organization with respect to meeting its objectives. This is the true bottom line of charity. Form 990 data are most useful for examining the evolving health and financial practices of an organization over a period of time.[88]

This study utilizes the form 990 to see what income producing activities means for a sampling of Philadelphia art and cultural organizations. It seeks to substantiate the value of earned income activities as an important means to an organization's sustainability and proliferation. It does not compare one organization's financials to another; however, it does note differences between performing arts and visual arts organizations. The information in the form is used in a manner which is common in the field and that is looking at the average revenue for a body of organizations for a period of time.

Philadelphia organizations that did not have 990 forms available via GuideStar were not examined. Organizations that utilized the form 990-ez and did not itemize their income producing activities were not studied as itemization is what showcases income producing activities; those without any income producing activities could not be evaluated; single support organizations whose income only comes from one source such as foundation could not be included; and organizations that lost their tax exempt status were not studied.

The form 990 components examined in this study were those that involved the sale of a good or service. Contributed income such as contributions, gifts, and grants, which also provide income for organizations, were not included in the

[88] Ibid.

quantitative analysis. While these funds are important and add to an organizations' total revenue they involve other strategies such as fundraising, grant acquisition, and donations to generate revenue. The following components were examined:

Admission Fees & Ticket Sales – Income from patrons who engage the organization by partaking of the art, performance, or cultural experience.

Memberships – Income from patrons who purchase organizational benefits, which can include discounts, special performance access, free admission, merchandise, and other privileges.

Special Events & Programs – Income from blockbuster exhibits, special shows, tours, and educational workshops for which a fee is charged.

Merchandise & Concession Sales – Income from sales of merchandise and food items. These are areas that involve inventory and the consumption of tangible items. These are often sold in an organization's gift shop and restaurant but may be made available through other outlets.

Facility Rental & Parking Income – Income from the temporary use or lease of a space.

Total Revenue – The sum of all revenue generated by the organization including government grants, gifts, contributions from individual donors, investment income, miscellaneous income, and income from fundraising activities. Total revenue was relevant for this study to see what percentage of the total revenue the aforementioned income producing activities meant to the overall revenue generated.

Total Expenses – The sum of all the expenses generated by the organization. Total expenses were relevant for this study to see how earned income activities can impact an organization's total operation budget. Total expense figures are necessary to understand budget losses.

Of the thirty organizations studied, fifteen can be classified as performing arts organizations, and the remaining fifteen as museums and/or historical sites, based upon their tax-exempt (NTEE) categories, programming and offerings. The IRS and The National Center for Charitable Statistics use the National Taxonomy of Exempt Entities (NTEE) system to classify nonprofit organizations.[89] It should be noted that some historical sites and societies also operate as museums and can be classified as such. Collecting the financial data for each earned income activity outlined previously for thirty organizations for multiple years resulted in a data set of 810 figures. From the data collected calculations were made to generate totals and averages for the organizations.

Table 1 displays a summary of the data collected. It shows the thirty organizations studied and the percentage of revenue generated from all of the earned income activities examined in this study with respect to the organizations' total revenue. It is a summation of the percentage of revenue received from all earned income activities studied (Admissions & Ticket Sales; Memberships; Merchandise & Concession Sales; Special Events & Special Programs; and Facility Rental & Parking Income), for all the years' financial information was

[89] National Center for Charitable Statistics at the Urban Institute, "National Taxonomy of Exempt Entities," Center on Nonprofits and Philanthropy, http://nccs.urban.org/classification/NTEE.cfm (accessed April 12, 2012).

available. Since three years of data was available for each organization it also includes three-year average for each organization, and the overall average for the sample. Table 1 reveals that revenue in the form of earned income means more to some organizations' financial sustainability than others. With earned income as little as 1% as in the case for the National Museum of American Jewish History in 2009 to as much as 88% for the Walnut Street Theatre in the same year, we can see the extent of organizations' reliance on earned income.

Income Earning Activities* % of Total Revenue					
Organization	**2008**	**2009**	**2010**	**2011**	**3yr Avg**
Academy of Natural Sciences Of Drexel University	15%	61%	20%		32%
African American Museum in Philadelphia	22%	22%	24%		23%
American Swedish Historical Museum		17%	13%	12%	14%
Arden Theatre Company	47%	92%	58%		66%
Eastern State Penitentiary Historic Site	26%	24%	30%		27%
Group Motion Multimedia Dance Theater		30%	29%	35%	31%
Historical Society of Pennsylvania		7%	7%	14%	9%
Independence Seaport Museum	29%	38%	38%		35%
Kimmel Center	30%	67%	57%		51%
Koresh Dance Company	67%	76%	68%		70%
National Constitution Center	35%	42%	43%		40%
National Liberty Museum	8%	29%	7%		15%
National Museum of American Jewish History	0%	1%	0%		0%
Opera Company of Philadelphia		29%	36%	20%	28%
Pennsylvania Academy of the Fine Arts	8%	10%	10%		9%
Pennsylvania Ballet	38%	48%	43%		43%
Philadelphia Museum of Art	11%	26%	19%		19%
Philadelphia Orchestra	37%	35%	34%		35%
Philadelphia Singers		69%	37%	57%	53%
Philadelphia Zoo		55%	57%	45%	52%
Pig Iron Theatre	30%	31%	26%		29%
Please Touch Museum	7%	81%	66%		51%
Rosenbach Museum & Library	11%	11%	18%		13%
Spiral Q Puppet Theater		30%	27%	30%	29%
The Chamber Orchestra of Philadelphia	32%	27%	21%		27%
The Fabric Workshop & Museum	7%	9%	9%		8%
The Philadelphia Dance Company	36%	61%	33%		43%
Walnut Street Theatre	86%	88%	85%		86%
Wilma Theater		37%	48%	39%	41%
Woodmere Art Museum	11%	16%	90%		39%
Average Per Year	**28%**	**39%**	**35%**	**32%**	**34%**
Median Per Year	**27%**	**31%**	**32%**	**32%**	**32%**
* Income Earning Activities Include: Admissions & Ticket Sales; Memberships; Merchandise & Concession Sales; Special Events & Special Programs; and Facility Rental & Parking Income					

Table 1 - Summary of Data Collected

The researcher limited this study to Philadelphia for best accessibility to arts administrators who could be interviewed for the quantitative analysis. While the scope is limited to the Philadelphia area the organizations represented are varied. The range includes organizations with revenues from $70,000 to upwards of $100,000,000. These organizations can parallel a number of art and cultural institutions in the United States. The purpose of the qualitative data is to underscore the statistical value and importance of earned income activities. The websites for each organization were also utilized as primary sources to corroborate and identify many of the earned income activities highlighted in the financial documents.

Findings — Three Year Period

Most nonprofit art and cultural organizations generate income in the form of ticket sales and or admission fees. Ninety seven percent in the study did. The average revenue generation from ticket sales and admission fees over a period of three years was 22%. Interestingly enough, organizations that exceeded the average more frequently were performing arts organizations. Figure 1 is a graphical representation of the organizations that receive 22% or more of their income in this category.

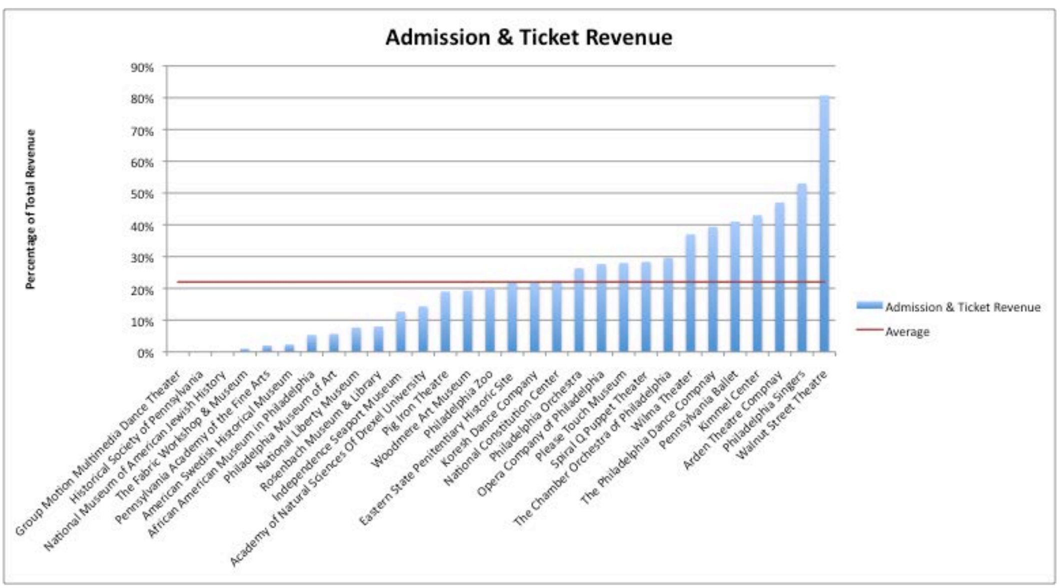

Figure 1 - Admission & Ticket Revenue

Performing arts organizations boasted admissions earnings that represented 22% to 81% of their organizations' total revenue. Organizations whose admissions and ticket sales represent upwards of 81% of their total revenue must work to maintain and safeguard that revenue since this is where they receive the majority of their funds to sustain their organization. For these organizations, earned income in the form of individual ticket sales, is essential to their survival. On the other hand those organizations with lower levels of earned admission and ticket revenue must strike a balance between earning income and fundraising. This was observed more with the museums and historical organizations. For them contributed revenue is equally important if not more important for their sustainability. The amount of income generated from admission fees and ticket sales varies from organization to organization. This indicates that the degree of dependency on this type of income is specific to each organization.

A little more than half of the organizations offered memberships, and performing arts and visual arts offered them equally. There was no great distinction in one type of organization offering memberships versus another. What can be gathered from that data is that memberships present a potential earned income opportunity for those that do not offer them. Memberships represented 1% to 16% percent of earned income in this study and an average of 3%. While this may seem small or insignificant this income stream could mean not realizing a deficit in some years for some organizations. Additionally the level of income generated from memberships seemed to stay pretty consistent from year to year for each organization offering them, making that source of income a bit more predictable.

Memberships or some form of benefit package tailored specifically for organizations' constituents is something worthy of exploring for those organizations that do not offer them. While memberships alone may not eradicate a financial loss, it should be considered as a strategy to potentially close revenue gaps.

Merchandise, food, or snack accounted for two to three percent of the revenue generated for those that offered these consumer goods. The range was 1% to 11% and almost all of them were in the museum classification. Figure 2 shows how much more museums and historical sites are able to benefit from merchandise and or food sales than performing arts organizations.

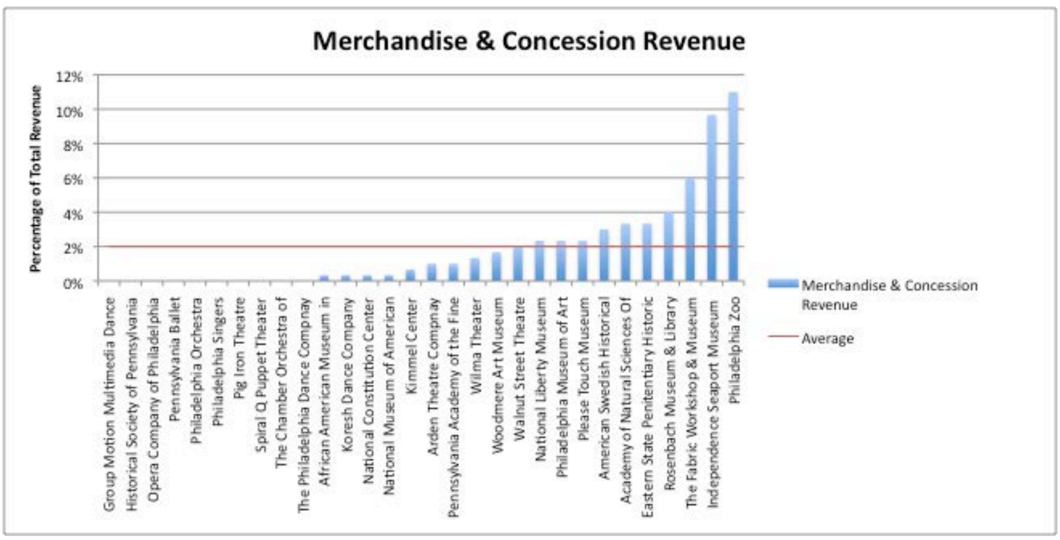

Figure 2 - Merchandise & Concession Revenue

Because all organizations do not have the facilities, permits, and resources to offer a restaurant or concessions, this excludes a group of organizations from earning this type of income. One area of exploration in this regard might be forming partnerships with food trucks. In a city such as Philadelphia where the number of food trucks is on the rise this might be a unique partnership depending on the proximity to the organization. Coupons directing patrons to truck and some type of revenue sharing model may work. Some arts and cultural organization already do this with local restaurants; however, the restaurants may not always match the consumers' preference or wallet. The convenience and price might be attractive.

Merchandise is something that all non-profit art and cultural institutions can take advantage of. Even small budgets can accommodate the production of some branded merchandise. While a brick and mortar space is not available to all organizations, their own websites, or simple table set-ups and pop-up kiosks can serve as quick storefronts for merchandise sales at various venues. Over half the organizations in the study were engaged in selling merchandise including branded merchandise. Performing arts organizations, museums, and historical sites were engaged in selling merchandise either online, at their facilities, or through both channels. Even smaller organizations with budgets in the low six figures had web-based stores with signature merchandise. Two percent of total income may seem small but it still can serve as another revenue stream for organizations.

Special events and special program revenue is where the greatest disparity exists with earned income for art and cultural organizations. Outside of admission and ticket revenue this is where the standard deviation was greatest.[90] From the data it appears that this is the area where organizations seem to have the most latitude and can affect earned income the greatest. Twenty-seven of the thirty organizations offered special events or programs in the form of blockbuster

[90] See Appendix A for Standard Deviations

exhibits, touring, educational workshops, lessons, residencies, auxiliary activities, and sponsorships. These specific items amongst others were itemized as program service revenue on the form 990. This segment of earned income impacted total revenue as little as 1% and as much as 48%. Organizations that offered a greater proportion of educational classes experienced higher revenue in this area. The Group Motion Multimedia Dance Theater and the Koresh Dance Company and Theater ranked among the top earners with 27% and 48% respectively. In a few instances there were years where some of the organizations did not have special programs or events whereas they engaged in them in previous years. Seventy percent of the organizations engaged in these activities on an annual basis.

One of the most revealing points about this area which the 990 showcases for many organizations is that they are actively engaged in income generation beyond admission and ticket sales to some degree or another. Regardless of the organizations' type, the most common special events and programs reported were educational workshops, touring, audio tours, and distinctive exhibits.

There are many reasons why an organization might not produce or pursue special programs. Lacking both human and financial resources, as well as not having content to showcase may be at the top of the list. For others this equates to, on average, 5% of their revenue. Although the revenue is secondary to admissions, it is still directly tied to fulfilling the mission. Cultivation and creation of new programs especially for those that do not have them can be a strategy in improving the earned income side of the budget.

Renting and leasing space is common for arts and cultural institutions that have the ability to do so. Twenty-four out of the thirty organizations offered a rental program. From the financial reporting documents in this study one could see dance studios leasing their studios for public use; museums, galleries, theaters and performing art venues leasing their facilities for events; and even some theater companies leasing costumes and sets for additional income. This source of income has less to do with an organization carrying out its mission but simply serves as another revenue stream. The revenue stream in this instance is very unpredictable. No organization can truly gauge the demand of the use of its facilities from year to year. According to the data, for some years a few organizations did not collect any rental income at all. Of all the areas this is the least dependable as a source of income. It has its place and importance to the total earned income picture when there is a demand for it, but it cannot be counted on as a major contributor to earned income. Meanwhile parking income, which very few organizations benefit from, proved to be a more predictable and consistent form of income from year to year for those with parking facilities.

The Financial Impact of Earned Income Activities

It should be noted that all the organizations, with the exception of four, experienced financial losses during one or more years within a three-year period. Close to one-third of the group had deficits for two years while a little over ten percent experienced them for three consecutive years.   There are various reasons why expenses can exceed revenue in a given year resulting in a deficit. Despite the reasons, we know that one way to reduce or eliminate deficits is to improve the earned income side of the budget. This is especially important for organizations that might find it challenging to reduce expenses, which is another method of balancing a budget.

When we look at the total picture of earned income activities in this study we see that they represent more than one-third of the total revenue collected.[91] Admissions and tickets sales, on average, make up 22% while the remaining 12% is from the auxiliary activities (memberships, special events, parking, space rental, merchandise and concessions).

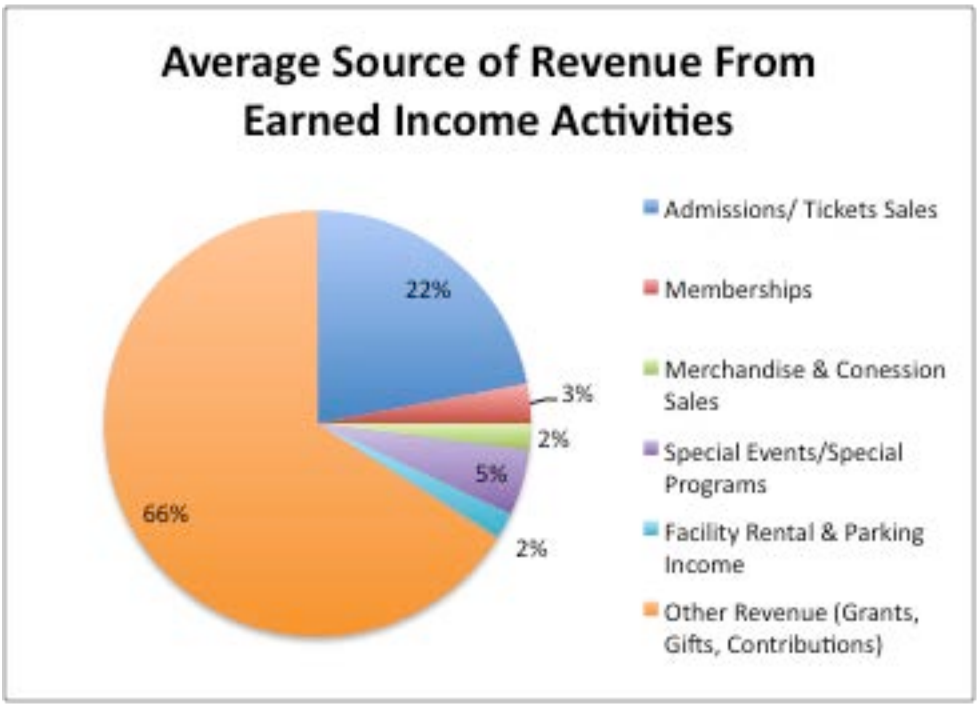

Figure 3 - Average Source of Revenue from Income Producing Activities

Both admission fees and the commercial activities are pretty significant and meaningful to an organization's bottom line. It has been argued that some of

[91] See Appendix B for Figure

the auxiliary activities do not generate much revenue and may not be worth pursuing. This study provides a contrast to that perspective. The income generated can mean the difference of not experiencing a deficit for some organizations in a given year, which suggests that the pursuit of a variety of earned income activities can contribute to an organization's financial stability.

Part of the data analysis included removing some of the earned income generators from the data set to see how budgets were impacted. When the memberships were removed from the data set a budget deficit occurred for an organization that did not have one previously. Without sales revenue from gift shops and restaurants, at least one organization experienced a shortfall in a year where they did not have one before. The lack of a facility rental and parking income for one organization resulted in deficits for two consecutive years where there were no prior losses. Lastly, when special events and programs got taken away from the data set it meant negative budgets for four organizations that had had balanced budgets.

These earned income activities are important to art and cultural organizations' bottom line. They cannot and should not be overlooked. In many regards they should be protected and nurtured by those who possess these revenue streams, and explored by those who do not offer them since the benefit can be a more balanced budget.

Findings — Years 2009, 2010

Years 2009 and 2010 offered the most complete data sets for all the art and cultural institutions due to the different accounting cycles that non-profits can adopt (see Table 1). Nevertheless the income from those years remained relatively consistent, and mirrored the three-year income activity averages for the sample. Merchandise and concession sales; and parking and facility rental remained unchanged. Meanwhile admissions fees, and special event revenue only deviated one to two percentage points. Table 2 reflects these findings.[92] This may suggest that the organizations are generally successful at maintaining, and occasionally succeeding, earned revenue levels from year to year.

Earned Income Activity	2009	2010	3 Year Average
Admissions/ Tickets Sales	24%	23%	22%
Memberships	5%	3%	3%
Merchandise & Concession Sales	2%	2%	2%
Special Events/Special Programs	6%	5%	5%
Facility Rental & Parking Income	2%	2%	2%
Other Revenue (Grants, Gifts, Contributions)	59%	65%	66%

Table 2 - Earned Income For Years 2009 and 2010

[92] See Appendix B for Additional Charts for Years 2009 and 2010

CHAPTER TWO – VOICES FROM THE FIELD: ARTS ADMINISTRATORS DISCUSS EARNED INCOME

Methodology

Interviews were conducted with five arts and cultural institutions, based on a purposive sampling approach. Managing Directors, Vice President of Operations, Executive Directors from two theatre companies, one dance company, and two museums were interviewed. The participants in these interviews had over five years tenure with their institutions and had a variety of professional experience in the arts and cultural sector. The interviews were conducted using a standardized list of questions as an interview guide for semi-structured interviews.[93] Participants were encouraged to reflect on their own experience as arts administrators throughout the interviews. Prior to each interview a description of the thesis research was read, which enabled participants to ask any questions about the study or their expectations for participation.

Discussing revenue and income is a delicate topic for many organizations. One limitation of this qualitative research method was the accessibility to arts

[93] See Appendix C

administrative professionals willing to discuss this topic. As a result the information presented in this research does not reflect or represent the perspectives of all arts administrators in the art and cultural sector. Due to the nature of the subject matter and some of the questions asked, confidentiality was agreed upon at the request of some administrators for the summary. The organizations represented by each interviewee have been noted where appropriate.

The purpose of the qualitative data was to support the tangible benefits of earned income, but to uncover the intangible benefits as well. The qualitative data also addresses several key points raised in the literature review regarding earned income. Common themes that emerged from the interview are summarized.

Organizational Identity

One of the common benefits of offering branded merchandise is organizational identity and organizational awareness. Branded merchandise in the form of t-shirts, tote bags, mugs, and other items serve as an extension of the organization's marketing and brand awareness campaign. While the margin on the merchandise sold is nominal, it creates another connection between the patron and the organization. When a constituent is able to purchase the very same shirt that the dancers in the dance company wears it creates a special bridge to the organization. This connection also extends to the volunteers and employees who proudly wear and showcase merchandise beyond the organization's walls. Even the smallest amount of income from merchandise is important to the organization but the value it holds beyond the financials is maintaining the institutions image in the public. Merchandise worn or seen in public reminds the community that the organization is still around and serving them. At least one organization noted that there are some losses when you are not able to sell all the merchandise. Dr. Joanne Martin, President and CEO of the National Great Blacks in Wax Museum indicates that it is not ideal to have the inventory depreciate, but any merchandise is valuable to the constituents who purchase it, and it helps to communicate the organization's mission outside of its doors.[94]

The Experience

Auxiliary services such as gift shops, parking, restaurants, and concessions that also generate income enable art and cultural institutions to provide a complete experience for their constituents. They become destination stops where several needs can be met in one location. This destination experience is more relevant to museums than the performing arts organizations. Sometimes it is the small things like providing snack for purchases or convenient parking that makes a first time visitor a repeat visitor. Repeat visitors funnel back into the earned income cycle.

Convenience and accessibility cannot be overlooked for constituents. In today's economy people expect more for their money and are value driven. Not having parking or having visitors leave to purchase food and drink can serve as barriers to participation or reduce chances of them returning. The Wilma Theater noted that when they added free parking to their subscription (membership)

[94] Dr.Joanne M. Martin, phone interview by author, Philadelphia, PA, August 28, 2012.

package they saw their memberships rebound from being down in previous years.[95] That one adjustment resulted in more income in the membership category–their second best sources of revenue outside of individual ticket sales.

Art and cultural organizations are known for providing experiences that generate memories through the work they showcase and present. Memorabilia that connect people to those experiences reinforce those experiences and serve as a reminder for them. When a patron can visit a gift shop and purchase an item tied to an exhibit they enjoyed it enhances their experience. The gift shop in and of itself provides another experience.

The Rewarding Income

Special events and educational programs, which are closely tied to the organizations' missions were said to be an exciting and rewarding part of earning income. Special events generate excitement for the organization and the public. According to the Philadelphia Dance Company they create organizational commitment on the part of the employees and volunteers.[96] Unique exhibitions, performances, and acquisitions establish the perfect environment to engage members, loyal patrons, and attract new ones. Meanwhile, touring allows organizations to engage new communities and deliver their mission in new ways.

According to all the art administrators queried, their educational programs are more about providing a service to the community than earning income. With theater, dance, and visual arts being cut from public schools some of the

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[95] James Haskins, phone interview by author, Philadelphia, PA, August 9, 2012.
[96] Joan Myers Brown, interview by author, Philadelphia, PA, August 16, 2012.

organizations are finding themselves serving as the supplement for these areas of study. Managing Director, Amanda White Thietje, of Mixed Blood Theater indicated they not only view themselves as arts organizations but also as a social service organization—an anchor for the community rather than an island.[97] To an extent these organizations are serving as art and cultural educators for their communities, their motives are tied to education, not money. The earned income generated from education was the least important to all interviewed.

Leveraging Assets

Renting facilities is seemingly a must for art and cultural institutions. It is almost unwise to not take advantage of the additional revenue that this can offer. The art and cultural sector is renting property such as apartments, and spaces for events, weddings, receptions, birthday parities, rehearsals, conferences and more. The spaces are not constantly in use and many of the overhead charges associated with building and equipment are paid for regardless of how often the doors are open. It is an opportunity to offset some of those overhead costs by renting spaces.

An outside event hosted at these art and cultural facilities reminds the attendees of the institutional presence in the community. A byproduct of the facility rental observed has been the ability to attract and acquire a new patron, those who return as visitors after the event, and event attendees who rent the facilities themselves in the future after attending a successful event. Additionally

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[97] Amanda White Thietje, phone interview by author, Philadelphia, PA August 10, 2012.

some of the most deeply vested patrons and members want to utilize facilities for special events in their lives such as weddings. The patrons appreciate the opportunity and the nonprofit appreciates the opportunity to engage them in another way.

Mission Accomplished

The overwhelming response from the organizations interviewed is that they have not had to compromise their mission while pursuing earned income activities. They are able to balance mission with money. Mission is number one and losing sight of it is not an option. Staying mission focused is an organizational responsibility that includes a board of directors that help to maintain that focus. However, it was noted by one administrator that under financial pressure you sometimes focus more intensely on the budget. The thought of reducing staff or an employee's hours causes you to focus on income, not just earned, ant thus puts pressure on fundraising as well. The arts administrators interviewed have all been faced with budget and staff cuts but never strayed from their missions.

The organizations are not programming to earn income. While earning income is important for the organizations to keep their doors open, they are not always looking to create programs, special events, or launch entrepreneurial ventures with a primary focus of generating income. Generating income is a much-needed derivative of mission fulfillment.

A paradox exists as there is also an expressed interest in new pricing models and earned income strategies for their organizations even to the point of hiring consultants to help in these areas as indicated by one professional. While the administrators are passionate about fulfilling missions they also understand that a balanced budget is important to keeping their doors open to serve their community and important in showing fiscal responsibility to grantors and the public.

While mission fulfillment is important there is a point when there is more intense focus on earned income. This occurs when the organization knows in advance that they will not be receiving a particular grant or contribution the following year. For instance, this occurs when a multi- year grant ends, or government funding that was once there will not be renewed. The Mixed Blood Theatre indicated that the public funding which allowed them to offer free and reduced admissions fees was going away so they were beginning to consider new strategies to generate income. There is a desire by the administrators to fill unmet need, or offset unpredictable grants with earned income initiatives.

Interestingly, compromising the mission was not as much of concern for earned income as it was for contributed income in the form of grants. One administrator indicated that their experience in this field over the years has shown that there are instances where programming has been altered to meet grant requirements and warns that this is where mission compromising can occur more often.

Challenges to Earning Income

The African American Museum in Philadelphia indicated that in light of recent shifts in public funding and other trends, their museum is placing a greater emphasis on earned income and has a strong interest in new earned income strategies.[98] Reduced disposable income, competition for entertainment, being viewed as a luxury and not a necessity, are included amongst the trends cited. Older constituents who tend to be more loyal are aging out of participation while younger people are less likely to commit to memberships and attendance as noted by the Managing Director of the Wilma Theater. Advances in technology pose some challenges for the administrators. YouTube, Network cable, DVR, and on demand features create competition. A poignant point made was that the History Channel can serve as indirect competition for museums; networks occasionally airing Broadway shows and musicals give way to competition for theaters; and even shows like "So you Think You Can Dance" and "Dancing with the Stars" give people weekly dance concerts from the comfort of their own homes. However, the organizations' reputations, community presence and involvement, unique programming, and ability to provide a different experience work to counter these other activities that compete for peoples' time, attention, and money.

Competition for grant funds impacts contributed income. Dr. Joanne Martin who has been an administrator for 30 years cited the increased competition for resources as a reason to pursue new earned income ventures. She mentioned

[98] Patricia Wilson Aden, e-mail, Philadelphia, PA, August 2, 2012.

that there may be a foundation that has $1 million to grant but they receive requests worth $4 million. Not everyone will be awarded a grant and should look at other ways to supplement income.[99]

Limited human and financial resources pose challenges for pursuing new earned income ventures. Many require hiring additional staff and having capital to launch the venture. Current staff is already strapped with more work than they can handle, sometimes doing the tasks of two or more people, thus adding additional responsibilities to pursue a new venture is unreasonable. Time was indicated as another challenge. It takes time to develop and launch a strategy and one may not see a return on that investment for several years. Human and financial resources were unanimous across the administrators as challenges faced with earning income. The organizations indicate that they are already tasked with having to accomplish a lot with a little.

Another challenge to pursuing new earned income ventures highlighted was the board and staff. While there might be some great ideas from staff, there must be buy-in and agreement from the board staff in order for them to be established and succeed. New earned income ventures are viewed as risks, and the risks for organizations can hinder or support innovation in income creation.

Entrepreneurial Pursuits: Earned Income Strategies Explored

As evident by their financial reporting documents one can see that art and cultural institutions are engaged in earned income activities. What are not

[99] Dr. Joanne M. Martin, phone interview by author, Philadelphia, PA, August 28, 2012.

apparent are the strategies and methods they are using to leverage the earned income side of their budgets, directly or indirectly. These organizations are trying to innovate and create new ventures and initiatives for their income pipelines.

A common theme amongst some of earned income strategies being pursued centers around cultivating young audiences. The organizations are trying to build audiences aimed at school age children and college students. The programs often offer discounted admission fees or tickets to students. It was noted by one professional that these programs do not tend to generate much revenue but work to cultivate future patrons, member, and subscribers.

The Please Touch Museum targets expectant parents by providing a childbirth education boot camp to cultivate them as future constituents. Their goal, in addition to generating a small amount of income from the workshops, is to provide these parents with childbirth education classes at their facilities with the aim of them returning at some point with their children.

Capitalizing on consumer shopping is also being explored. The Philadelphia Dance Company is partnering with Macy's to offer discounted shopping passes. Passes are five dollars each offering 25% discounts at any Macy's store. All the revenue generated from the sale of the passes goes directly to the organization. Also being pursued is revenue generation from alignment with online retailers like Shop.com (www.shop.com). Shop.com establishes a personalized URL address for the organization that can be promoted on that organizations website or e-mailed to constituents encouraging them to make purchases where a percentage of the sale goes to the non-profit. The theater company that is utilizing indicates that it has not yielded a lot of income.

Partnerships and sponsorships are also income strategies being implemented. The Wilma Theater engages in a profit sharing partnership with the Philadelphia Theater Company. Through certain subscription packages members can use tickets to see shows either theater company. The National Great Blacks in Wax Museum engages in sponsorships with Exxon Mobile for new wax figure unveilings and exhibits, as well as Macy's for touring exhibits allowing their historical figures to be showcased in Macy's stores in major metropolitan cities such as Detroit and Chicago. Meanwhile Southwest Airlines sponsors all travel for the wax figures and staff for traveling exhibits.

While advances in technology were cited as a contributor of competition, a few of the organizations are using it as marketing channels in effort to attract new patrons and communicate with existing patrons. Sites like YouTube, Vimeo, Facebook, and Twitter are to be adopted although it is difficult to track their direct impact on earned income.

Dynamic pricing models are being considered. This is where the admission or ticket prices are adjusted based on demand. This is occurring more with performing arts organizations. They are looking at increasing or decreasing prices based upon the demand for certain shows rather than have one blanket price.

Memberships, which are the second highest income generator outside of admission fees and tickets sales, are also being looked at differently. They are being packaged differently offering a variety of pricing and benefit options. Customizable packages and flex packages are amongst those that are showing some success. This is in response to the decline in memberships over the years. While the quantitative data revealed membership revenue as being more stable over a period of year the interviews revealed that the organizations work tirelessly to renew memberships and acquire new members. Memberships are upfront, guaranteed revenue for the organizations and are very important to them.

Raising the admission or ticket price is not a favorable strategy amongst the organizations to generate additional income. Some have had to do so to cover production costs and other overhead costs. The concern is reducing accessibility by raising prices. Limiting access to those in the community is antithetical to mission fulfillment. Having unrestricted funds in the form of earned income is highly desirable and important for arts and cultural organizations but not at the risk of compromising mission.

Earned Income Model: Linking the Tangible with the Intangible

The following figure depicts some of the outcomes from earned income activities as uncovered in the research. The monetary assets that are acquired and can be statistically measured represent the tangible. The non-monetary assets that cannot be seen, touched, or physically measured are the intangible outcomes. Money comes in from earned income activities but these activities have further benefits for the organization and their constituency. The processes of earning income has a “domino effect—one thing can touch another.”[100]

Figure 4 - Earned Income Model

[100] Dr. Joanne M. Martin, phone interview by author, Philadelphia, PA, August 28, 2012.

CONCLUSION

Earned income and the activities that generate income are important to the art and cultural sector. Earned income provides unrestricted funds for an organization, which helps their sustainability. For some organizations engagement in earned income activities means not experiencing a loss in a given year. The pursuit of the activities not only serves as a method to balancing the budget, but it holds value for an organization's identity, community, and constituency. This suggests that there may be a "halo effect" of engaging in certain earned income activities. While many of auxiliary offerings such as merchandise, food, parking, educational programs, do not yield substantial amounts of money, they prove to be mutually beneficial for the organizations and their constituency. Earned income strategies can create a cycle that directly and indirectly maintains loyal members, attracts new patrons and cultivates repeat patrons.

Even as several art and cultural organizations are engaging in earned income activities, they are also exploring ways to revamp their existing income streams, and creating new ones to compensate for reduced government funding and budget constraints. Many of the new strategies that are being explored involve targeting younger audiences and creating more flexibility for patrons. These types of earned income strategies may be core to the future sustainability of arts and cultural institutions when considering future patrons and increased competition for entertainment, time, and money.

Earning income is not without its challenges. It's a complex process and what is suitable for one organization may not be suitable for another organization. For some organizations such as museums, contributed revenue eclipses the earned, which mean the expenditure of time, resources, and strategies are allocated more to fundraising. While other organizations in the performing arts may have to strike a balance between the two or even devote more resources to earned income. Nevertheless despite the organizations' type, earned income in any amount is important for the organization. The revenue is important but there are intangible values and benefits that extend beyond the dollar, which underscore the mission of these organizations. Mission fulfillment is the primary focus for these institutions. Pursuit of earned income and all that it involves does not derail them from mission focus—it is tied to it.

Recommendations

- Re-imagine current membership and subscription models, or create new ones. Offer flexibility and customization for membership packages. These may appeal to younger audiences and people with demanding schedules.

- Merchandising can help to promote organizations and be a form of advertising. There are many low costs products that can be customized to commemorate exhibits, performances, or showcase an organization's logo, mission, and more. Wrist bands, ink pens, decorative cell phone skins, and water bottles can be purchased as low as a $1.00 and sold at an eighty percent ($5.00) or more profit margin. Think beyond t-shirts, tote bags, and mugs, which are more costly and have a shorter shelf life.
- Explore profit sharing partnerships. Many cities are seeing the rise of food trucks. Consider food trucks partnerships and referral programs as well as coupon partnerships with daily deal providers like Groupon and Living Social.
- Rental programs can involve more than facility rental for events. Consider leasing props, costumes, sets, artwork, and mailing lists.
- In effort to contend with the competition that technology and changing lifestyles have presented, organizations should consider ways to create unique experiences, and aim at becoming destination locations. This can involve looking at ways to address other constituent needs that are not currently implemented by the organization. This may include offering food, affordable parking, and dynamic or sliding scale pricing model.

APPENDICIES

APPENDIX A

ADDITIONAL DATA TABLE*

Table A 1 - Descriptive Statistics for Three-Year Period

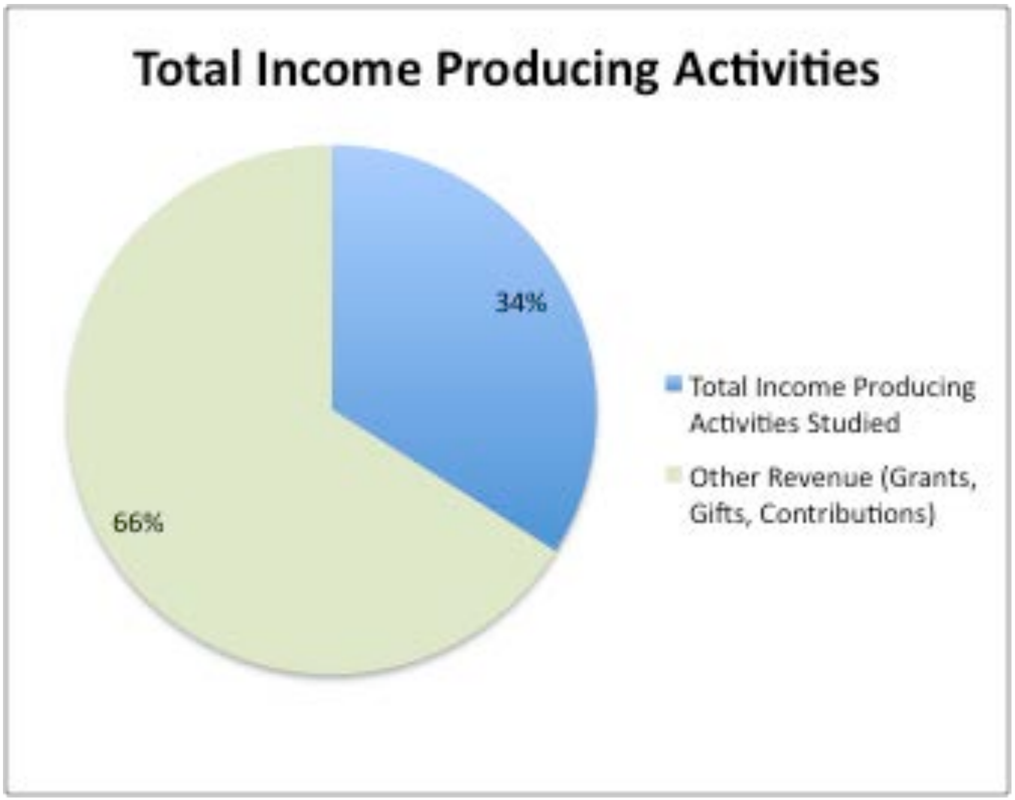
	Descriptive Statistics for Thirty Art & Cultural Institutions				
	Admissions & Ticket Sales	Memberships	Sepcial Events & Programs	Merchandise & Concessions	Rental & Parking Income
Average	22%	3%	5%	2%	2%
Standard Deviation	19%	4%	10%	3%	3%
Range	81%	16%	48%	11%	13%

* Table Created by Author, Tia James, 2012

APPENDIX B

ADDITIONAL FIGURES*

Figure B 1 - Total Income for a Three Year Period



Of the organizations studied, 34% of the income was from earned income activities, and 66% was from grants, gifts, contributions, and miscellaneous revenue.

* Figure Created by Author, Tia James, 2012

Figure B 2 - Average Source of Revenue from Earned Income Activities for 2009

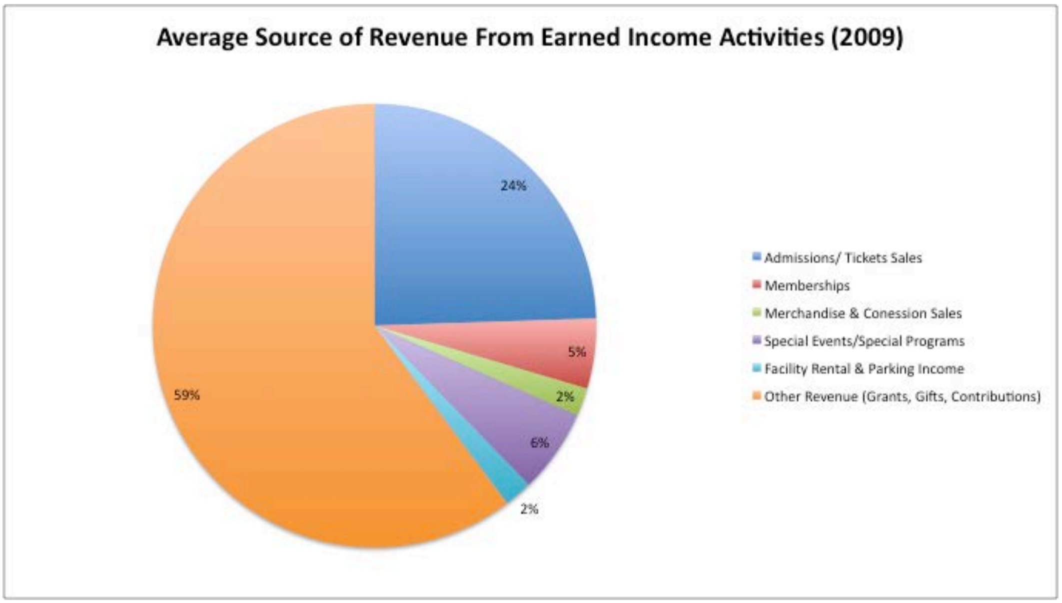
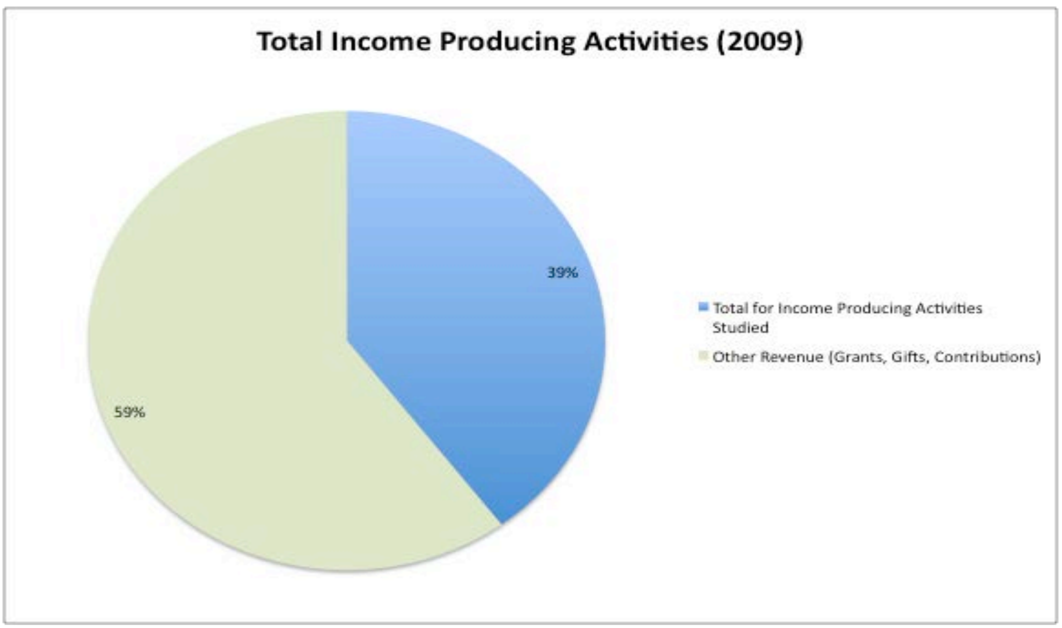


Figure B 3 - Total Income for 2009



Of the organizations studied, 39% of the income was from earned income activities, and 59% was from grants, gifts, contributions, and miscellaneous revenue.

Figure B 4 - Average Source of Revenue from Earned Income Activities for 2010

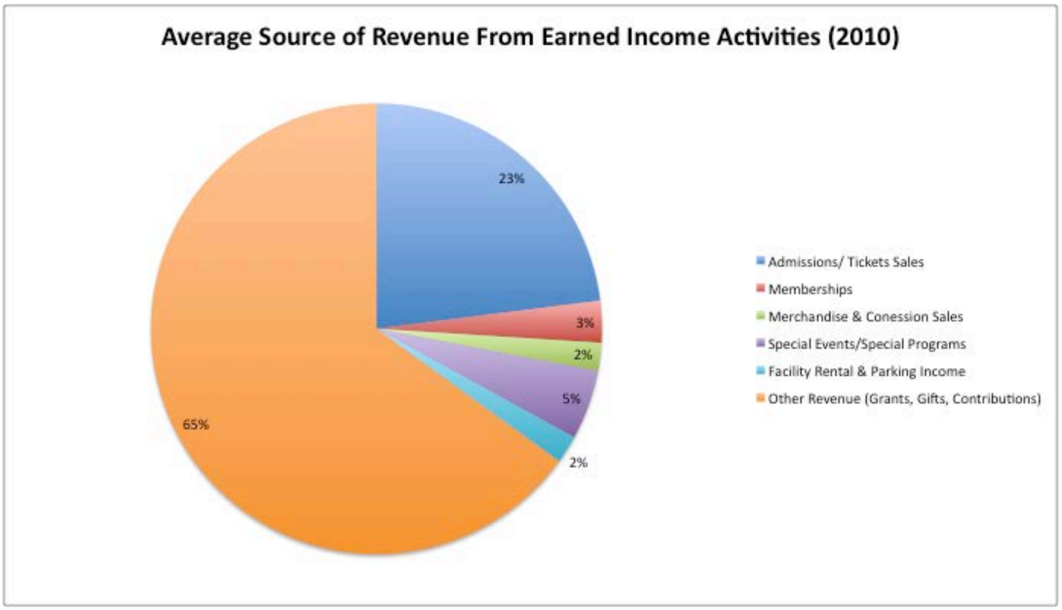
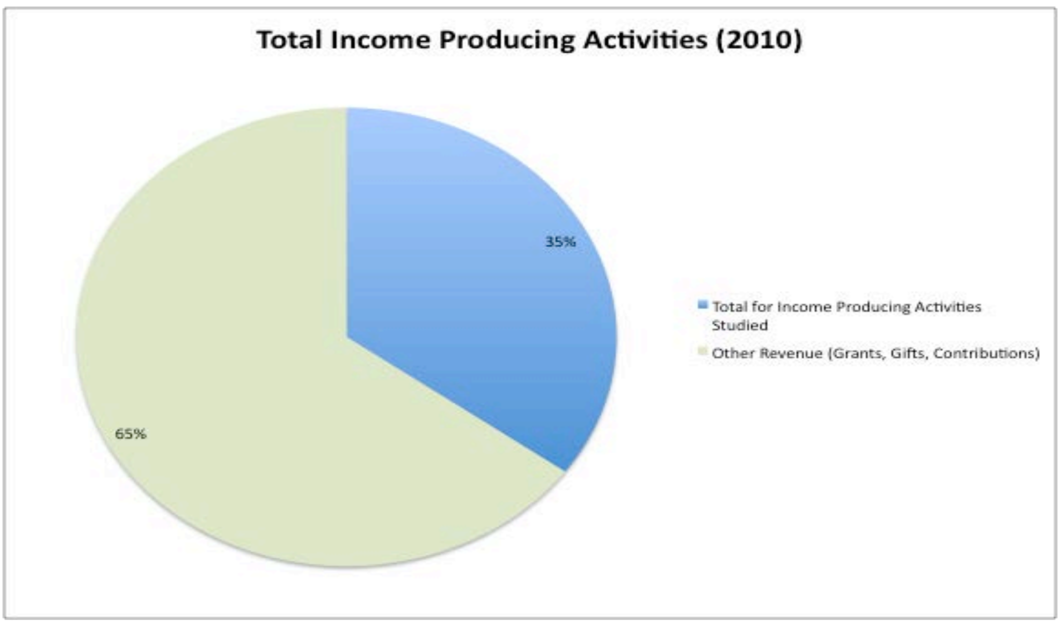


Figure B 5 - Total Income for 2010



Of the organizations studied, 35% of the income was from earned income activities, and 65% was from grants, gifts, contributions, and miscellaneous revenue.

APPENDIX C

INTERVIEW QUESTIONS[*]

- What are some of the ways your organization earns income?

- What value or benefit would say these offerings provide your constituents?

- What value or benefit would you say these offerings provide for your organization?

- Have you found that your organization has changed its approach to earning income given changes in this economic climate?

- What are some of the challenges your organization has faced in earning income?

- To what extent have you focused more on earned income and/or entrepreneurial activities as a way to reduce your dependency on some key resources? Why?

- Does your organization feel more liberated in its ability to generate earned income? Does it have more autonomy on programming decisions than before?

- Have you ever felt as though your organization has had to compromise its mission even slightly to generate income?

- Has your organization ever felt pressure to raise admission fees or ticket prices in times of economic downturn for sustainability?

- What successful things has your organization done to generate funds for your organization? Why were they successful?

- Are there any earned income strategies that you have tried that did not work? If so what were they and why weren't they successful?

- Has your organization ever created a new enterprise or entrepreneurial business like venture? If so what was that venture?

- How important is having diversified revenue streams for your organization?

[*] These questions served as guide during semi-structured interviews.

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